Docket:	:	A.08-12-006
Exhibit Number	:	DRA-1
Commissioner	:	J. Bohn
ALJ	:	R. DeAngelis
Witness	:	K.C. Lee

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY, PACIFIC GAS AND ELECTRIC COMPANY, AND SOUTHWEST GAS CORPORATION FOR APPROVAL OF WHOLESALE TRANSPORTATION AND EXCHANGE AGREEMENTS AND RELATED RELIEF

San Francisco, California
May 12, 2009

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I. INTRODUCTION

This Report presents DRA's analyses and recommendations regarding A. 08-12-006 (filed December 15, 2008), the joint application of the Southern California Gas Company ("SoCalGas"), the Pacific Gas and Electric Company ("PG&E"), and the Southwest Gas Corporation ("Southwest") (hereafter jointly or severally referred to as the "Applicants"). On March 12, 2009, the Commission held a duly noticed Prehearing Conference (PHC) and on April 2, 2009, issued a Scoping Memo, which *inter alia* scheduled DRA's service of its Report by May 12, 2009.[1] After the PHC, DRA issued Data Requests and the Applicants responded, as indicated below.

II. BACKGROUND

Since 1993, SoCalGas has provided Southwest Gas wholesale gas transportation services under the California Wholesale Gas Transportation and Storage Services Agreement ("Original Southwest Agreement"). SoCalGas directly serves about 71 percent of Southwest's customers' gas usages and indirectly serves about 29 percent by contracting with PG&E. The indirectly served gas volumes are physically delivered to Southwest via PG&E pipelines. Under the Southwest Exchange Gas Delivery Agreement ("Original SEGDA"), SoCalGas delivers (i.e., "exchanges") gas at the interconnect point, the Kern River Station, to PG&E, which in turn delivers the gas to the Southwest customers. SoCalGas pays PG&E an Exchange Fee for this transportation service.

In Decision ("D.") 93-07-052, the Commission approved the Original Southwest Agreement and the Original SEGDA. The Original Southwest Agreement, has a term of 15 years; expired on July 31, 2008; and unless otherwise terminated or amended, continued in effect from year to year. The Original SEGDA ends "conterminously" when the Original Southwest Agreement is terminated.

On July 16, 2008, the Applicants filed Advice Letter ("AL") AL 3882 seeking to establish by August 1, 2008, the Southwest Gas Exchange Fees Memorandum Account.

[1] A. 08-12-006, Scop'g Memo at 4 (dated Ap. 12, 2009).

This would be an interest-bearing memorandum account used to track the difference between the current Exchange Fee and its increased amount based on amendments to the Original SEGDA and the Original Southwest Agreement.

In Commission Resolution ("Res.") G-3248 (dated November 21, 2008), the Commission denied AL 3882's request for the memorandum account because the Applicants had not obtained prior Commission approval of the amendments to the Original SEGDA and the Original Southwest Agreement. The Commission ordered the Applicants to continue operating under the terms of the two Original Agreements, until the Applicants had filed with the Commission and justified as reasonable the amended versions (respectively, the "New Southwest Agreement" and the "New SEGDA").

On December 15, 2008, the Applicants presented in this matter for Commission review and approval the New Southwest Agreement and the New SEGDA. They sought *inter alia* approval to increase the Exchange Fee amount from the current $0.25/Dth to approximately $0.4233/Dth in 2009 and $0.4201 in 2010; and to spend approximately $1.3 million to upgrade the existing Pisgah Meter Station ("Pisgah").

DRA opposes the Exchange Fee increases and the Pisgah $1.3 million upgrade stated above. The Applicants have failed to justify with supporting data and other information that these two requests are each reasonable and justified. Similarly, DRA also opposes the Applicants' proposed changes to SoCalGas's rate schedule, GW-SWG, and the System Balancing Cost Adder, insofar as they are determined by or contingent on Commission approval of the Exchange Fee increases or the Pisgah upgrade.

III. DRA'S RECOMMENDATIONS

Based on a review of the Applicants' filing and their data responses, DRA recommends the following:

- The Commission should reject as unreasonable and unjustified the proposed Exchange Fee increases from $0.25/Dth to $0.4233/Dth in 2009 and $0.4201/Dth in 2010. The Commission should direct the Applicants to withdraw the New SEGDA and file an amended SEGDA setting the Exchange

Fee at an amount that is shown with supporting data to be reasonable and justified. DRA recommends increasing the Exchange Fee to $0.282/Dth, as illustrated by Table 1 below.

- The Commission should deny the Pisgah $1.3 million upgrade as unreasonable and unjustified. The Applicants have presented insufficient data or other information to support the need for upgrading Pisgah to serve as an alternative interconnect point in lieu of the Kern River Station.

Table 1

Comparison of New SEGDA Exchange Fee, $/Dth

Year	DRA Recommended (a)	PG&E Proposed[2] (b)	Current SEGDA(c)	Percentage PG&E>DRA (d=1-b/a)	Percentage PG&E>Current (e=1-b/c)
2009	0.282	0.4233	0.25	50.1%	69.3%
2010	0.282	0.4201	0.25	49.0%	68.9%

IV. THE EXCHANGE FEE UNDER THE NEW SEGDA

A. PG&E's Proposal

Under the New SEGDA, PG&E proposes an estimated Exchange Fee of $0.4233/Dth in 2009 and $0.4201/Dth in 2010. For more than the past 15 years under the Original SEGDA, the Exchange Fee has been $0.25/Dth. According to Commission Decision ("D.") 93-07-052, this current Exchange Fee of $0.25/Dth was negotiated between parties in settlement of a compliance proceeding when unbundled backbone, local transmission, and distribution rates were unavailable.[3]

In this Application, PG&E calculated the New SEGDA Exchange Fees based on tariff rates for the transportation of gas over both the Baja Path and local transmission lines. Many of PG&E's delivery points to Southwest are located on the backbone Line 300 known as the "Baja Path," while the remaining delivery points are on the local

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[2] Prep. Dir. Test. of Roger A. Graham/PG&E, dated Dec. 15, 2008, at p. A-2 of Attachment B.

[3] Response to Q. 9 of DRA Data Request, A.08-12-006-DRA-KCL1, dated Mar. 6, 2009.

transmission Lines 313 and 314, which are connected to Line 300. According to PG&E witness Roger Graham:

> PG&E's CPUC-approved Baja Path backbone rate was converted to a volumetric rate . . . . Next, PG&E's local transmission fee of 0.1398 dollars per decatherm ($ per Dth) was reduced by 33 percent (rounded) to reflect the historical percentage of local transmission quantities (~66%) relative to the total gas quantities delivered to SWG. . . . Next, the two calculated fees were added together to create a calculated single fee reflecting that the backbone transmission system is used for all deliveries to SWG, and that 66 percent of total deliveries require the use of the local transmission system.[4]

B. DRA's Discussion and Analysis

PG&E receives gas from SoCalGas for delivery to Southwest at its Kern River Station. PG&E utilizes a section of backbone Line 300 between the Kern River Station and Needles to deliver the exchange gas to the Southwest customers. Gas is tapped off along Line 300 to serve Southwest customers in the Barstow area, and some gas volume flows from Line 300 into local transmission Lines 313 and 314 to serve Southwest customers in Victorville and Big Bear. Additionally, a relatively small volume of gas is tapped off along Line 300 to serve Southwest customers at Needles. The maximum distance over Line 300 that is used to facilitate deliveries to the Southwest Gas customers

[4] Prep. Dir. Test. of Roger A. Graham/ PG&E, dated Dec. 15, 2008, at p. 4, lines 10-20.

between the Kern River Station and the California border is about 280 miles. This distance amounts to approximately 56 percent of the total length of Line 300, which is 500 miles.[5]

Because the gas delivered to Southwest uses only a maximum of 56 percent of Line 300, it is unreasonable and unjustified for PG&E to include the full Baja Path rate of $0.3220/Dth in the calculation of the Exchange Fee. Instead, DRA proposes a contract rate proportionate to the amount of the Baja Path used, which would be 56 percent of the full Baja Path rate of $0.3220/Dth or $0.180/Dth (56% x $0.3220/Dth = $0.180/Dth) for this long term contract.

The actual deliveries to Southwest are made downstream of the Kern River Station and the exchange with SoCalGas is at the Kern River Station. Therefore, PG&E should be able to optimize its SEGDA deliveries such that it should not detract significantly from maximum utilization of Baja Path capacity.

PG&E asserts:

> [T]he SEGDA exchange fee was based on the use of a service level and path, without regard to the mileage on lines used [because] there is no reason to deviate for the CPUC policy and establish a mileage-based rate for this contract.[6]
>
> * * *
>
> All of PG&E's currently effective gas transportation tariffs are postage-stamp, not distance-based, rates and have been approved by the Commission.[7]

PG&E and none of the other Applicants provided any Commission policy or other authority requiring that the Exchange Fee, which is a matter of contractual agreement, must be determined on the same basis as gas transportation tariffs, i.e., "postage stamp"

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[5] E-mail from PG&E witness Roger Graham to Kelly C. Lee/DRA, "Re: SEGDA-Line 300 Length," dated Ap. 24, 2009.

[6] Response to Q.6 of DRA Data Request, A.08-12-006-DRA-KCL1, dated Mar. 6, 2009.

[7] Response to Q.8 of DRA Data Request, A.08-12-006-DRA-KCL3, dated Ap. 8, 2009.

basis. On the other hand, no Commission rule or regulations was mentioned as prohibiting basing the Exchange Fee on the distance of the gas line used.

While PG&E's gas transportation rates may be subject to specific Commission requirements, the Exchange Fee is not similarly prescribed, because it is determined by contractual agreement between the parties. For example, the current Exchange Fee of $0.25/Dth was derived as part of settlement negotiation between the parties to settle a compliance issue at the time.[8] Evidently the Commission approved and accepted this current Exchange Fee because the parties showed that it was reasonable, consistent with the law, and in the public interest.

In this proceeding, neither PG&E nor any other Applicant showed with supporting data that the proposed $0.4233/Dth in 2009 and $0.4201D/th in 2010, which are substantially higher than the current fee of $0.25/Dth, are reasonable and justified. For example, none of the Applicants proved that the current exchange fee of $0.25/Dth insufficiently covered the costs of gas deliveries to Southwest. Instead, PG&E only opined:

> PG&E believes the Baja Path rate and Local Transmission rate appropriately represent the cost to provide the exchange service to SoCalGas. . . .To the extent that the current exchange fee is less than the proposed exchange fee, the costs of providing the exchange service are not adequately covered by the current fee."[9]

Under the current Gas Accord, the Exchange Fee increases under the New SEGDA would generate additional revenues that go directly to the PG&E shareholders, and ratepayers would receive no benefit from such increases.

DRA recommends a more modest increase of the Exchange Fee from $0.25/Dth to $0.282/Dth, which amounts to only 12.8 percent increase over the current Exchange Fee. DRA used PG&E's method of calculation but included only the proportionately, distance-based, Baja Path rate of $0.180/Dth and not the full Baja Path rate of

[8] Response to Q. 9 of DRA Data Request, A.08-12-006-DRA-KCL1, dated Mar. 6, 2009.

[9] Response to Q.11 of DRA Data Request, A.08-12-006-DRA-KCL2, Mar. 18, 2009.

$0.322/Dth. The Baja Path component of the Exchange Fee with DRA's recommended modification described above and the local transmission component of the Exchange Fee are tabulated in Table 2.

The Commission should reject the New SEGDA's Exchange Fees. The Applicants should file an amended SEGDA which proposes a more reasonable and justified Exchange Fee than presented in this proceeding. DRA's recommendation of $0.282/Dth is a reasonable rate. DRA also recommends that Southwest explore the feasibility of Southwest entering into wholesale gas transportation agreement for service directly from PG&E for its customers in Barstow, Needles, Victorville, and Big Bear in lieu of obtaining this service from SoCalGas as part of the New Southwest Agreement.

Table 2

Calculation of Exchange Fee for 2009

	Backbone Line 300 ($/Dth)	Local Transmission ($/Dth)	Total Exchange Fee ($/Dth)
PG&E	0.3220	0.1013	0.4233
DRA	0.1803	0.1013	0.282

V. THE PISGAH METER STATION UPGRADE

A. SoCalGas's Proposal

SoCalGas claims the $1.3 million Pisgah upgrade is needed for following reasons:

> Because the 2008 SEGDA requires daily deliveries to PG&E which cannot always be achieved via the Kern River Station exchange interconnect point, SoCalGas and PG&E identified Pisgah as an alternate exchange interconnect point."[10]

In addition to the Pisgah capital-related charge, which amounts to about $16,116 per month for the 15-year term of the contract, an O&M charge of approximately $12,408 per year will be incurred. Southwest agrees to pay all these costs.[11] These capital costs

[10] Prep. Dir. Test. of Sharon R. Pope/ SoCalGas, dated Dec. 15, 2008, at p. 5, lines 20-22.

[11] *Appl.* at p. 5.

are not included in the current SoCalGas rate base but will be included as part of SoCalGas's Test Year 2012 GRC.[12]

B. DRA's Discussion and Analysis

SoCalGas delivers gas to PG&E under SEDGA at PG&E's Kern River Station. Typically, customers and suppliers schedule gas delivery from PG&E into the SoCalGas system at the Kern River Station. In the past, the availability and the quantity of supplies flowing from PG&E to SoCalGas at this station are more than sufficient to offset the quantity of gas SoCalGas needs to deliver to PG&E under SEGDA.

Usually, SoCalGas does not need to physically deliver the gas. It just simply subtracts the SEGDA exchange volumes from the gas scheduled from PG&E, which is referred to as "displacement." Under limited circumstances and infrequently, SoCalGas physically delivers gas to PG&E at the Kern River Station.

Recently, there has been a reduction in volumes and increase in variability in scheduled gas flow from PG&E to SoCalGas at the Kern River Station. These trends are shown in the SoCalGas Receipt Point Utilization Reports filed with the CPUC every six months (according to D.06-09-039). SoCalGas and PG&E cannot complete the SEGDA gas exchange by "displacement" when on a particular day the scheduled supplies from PG&E to SoCalGas are lower than the SEGDA exchange volumes.[13]

The Applicants claim that recent decrease in gas activities at the Kern River Station supports the need to upgrade Pisgah as a backup for physical delivery of the SEGDA gas volumes. But neither SoCalGas nor PG&E could predict with any reasonable certainty whether such a decrease would continue and for how long, or explain how such an event supports the need for upgrading Pisgah, as follows:

> Neither PG&E nor SoCalGas can accurately predict both the competitiveness of various gas supplies and the nominations of such supplies by SoCalGas customers. Therefore, neither utility can reliably forecast the available displacement volumes at KRS as the means of future

[12] Prep. Dir. Test. of Gary G. Lenart/SoCalGas, dated Dec. 15, 2008, at p. 4, lines 8-11.

[13] Response to Q.1 of DRA Data Request, A.08-12-006-DRA-KCL1, dated Mar. 9, 2009.

daily SEGDA gas deliveries from SoCalGas to PG&E particularly over the 15 year SEGDA term.[14]

Circumstances in the near future could change quickly and cause the scheduled gas flow through the Kern River Station to increase and make physical delivery of SEGDA-exchange gas unnecessary. Additionally, the Applicants have not presented any cost-benefit study to show the economic benefits of utilizing Pisgah as a backup delivery point.

Further, despite this recent decrease and variability in PG&E gas deliveries to SoCalGas, SoCalGas has continued to meet Southwest's gas demands using only the Kern River Station. Southwest customers have never experienced any shortfalls in gas deliveries, which raise doubts regarding the need to upgrade Pisgah.[15]

Only infrequently has SoCalGas actually and physically delivered gas to PG&E under the Original SEDGA before January 22, 2009. Since January 22, 2009, SoCalGas has begun to flow SEGDA exchange gas into the PG&E system at the Kern River Station. According to a PG&E spreadsheet of daily activities at the Kern River Station,[16] gas flowed from SoCalGas to PG&E almost daily since January 22, 2009. As a PG&E data response states:

> On January 22, 2009, SoCalGas began to physically flow into the PG&E system at Kern River Station to begin to reduce the large accumulated imbalance created in large part by the on-going inability to receive the SEGDA nominations through displacement. Flows from SoCalGas into the PG&E system continue as of the date of this data response.[17]

Therefore, the Applicants have not shown the proposed upgrade of Pisgah is reasonable or justified. The Applicants' data responses indicate no problems have

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[14] Response to Q.7 of DRA Data Request, A.08-12-006-DRA-KCL3, dated Ap. 8, 2009.

[15] Response to Q.6 of DRA Data Request, A.08-12-006-DRA-KCL3, dated April 8, 2009.

[16] Response to Q.13 of DRA Data Request, A.08-12-006-DRA-KCL2, dated Mar. 18, 2009.

[17] Response to Q.2 of DRA Data Request, A.08-12-006-DRA-KCL3, dated Ap. 8, 2009.

occurred for the past 15 or more years using the Kern River Station for the SEGDA-exchange of gas between SoCalGas and PG&E.

If circumstances were to change in the future, SoCalGas could propose a Pisgah upgrade at that time as part of a GRC application. But currently, SoCalGas has failed to show that Pisgah needs to be upgraded to serve only as a secondary delivery point.[18]

V. CONCLUSION

The Commission should reject the Applicants' request with regard to the two issues discussed above: (i) the Exchange Fee increases proposed for 2009 and 2010; and (ii) the Pisgah $1.3 million upgrade. The Applicants have not proved that the Exchange Fee increases are reasonable, consistent with the law, and in the public's interests. DRA recommends a more reasonable, increased Exchange Fee of $0.282/Dth.[19] Further, the proposed $1.3 million Pisgah upgrade, as well as related O&M and A&G charges, would needlessly and unreasonably burden the Southwest ratepayers.

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[18] Response to Q.3 of DRA Data Request, A.08-12-006-DRA-KCL1, dated Mar. 9, 2009.

[19] Based on the annual SEGDA volume of about 3 million decatherms, the adoption of the DRA recommended Exchange Fee would save the Southwest customers over $423,000 annually or more than $6.3 million over the 15-year term of the New SEGDA.

QUALIFICATIONS OF KELLY C. LEE

Q.1. Please state your name and address.

A.1. My name is Kelly C. Lee. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission (CPUC) as a Senior Utilities Engineer in the Energy Cost of Service and Natural Gas Branch of the Division of Ratepayer Advocates (DRA).

Q.3. Please describe your educational and professional experience.

A.3. I have a Bachelor of Science Degree in Mechanical Engineering from San Jose State University, a Master of Science Degree and a Master of Engineering Degree from the University of California in Berkeley, and a Master of Business Administration (MBA) from the University of San Francisco.

I am a registered Professional Mechanical Engineer in the State of California.

I joined the DRA/CPUC in 1999. During my time in DRA, I have worked as an analyst and project coordinator on various gas, electric, and telecommunication cases. Before joining the CPUC, I worked in the private industry performing engineering research and analysis, managing programs, and supervising engineers in the aerospace and alternate energy fields.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for the DRA testimony.

Q.5. Does this conclude your testimony at this time?

A.5. Yes, it does.